

# Northumbria Research Link

Citation: Irwin, D. and Scott, Jonathan (2010) Barriers faced by SMEs in raising bank finance. *International Journal of Entrepreneurial Behaviour & Research*, 16 (3). pp. 245-259. ISSN 1355-2554

Published by: Emerald

URL: <http://dx.doi.org/10.1108/13552551011042816>  
<<http://dx.doi.org/10.1108/13552551011042816>>

This version was downloaded from Northumbria Research Link:  
<http://nrl.northumbria.ac.uk/id/eprint/29961/>

Northumbria University has developed Northumbria Research Link (NRL) to enable users to access the University's research output. Copyright © and moral rights for items on NRL are retained by the individual author(s) and/or other copyright owners. Single copies of full items can be reproduced, displayed or performed, and given to third parties in any format or medium for personal research or study, educational, or not-for-profit purposes without prior permission or charge, provided the authors, title and full bibliographic details are given, as well as a hyperlink and/or URL to the original metadata page. The content must not be changed in any way. Full items must not be sold commercially in any format or medium without formal permission of the copyright holder. The full policy is available online: <http://nrl.northumbria.ac.uk/policies.html>

This document may differ from the final, published version of the research and has been made available online in accordance with publisher policies. To read and/or cite from the published version of the research, please visit the publisher's website (a subscription may be required.)



**Northumbria  
University**  
NEWCASTLE



**UniversityLibrary**

## **Barriers faced by SMEs in raising bank finance**

**David Irwin**, Irwin Grayson Associates

Jacaranda, Long Rigg, Riding Mill, Northumberland, NE44 6AL

t: +44 (0)191 645 2370, [david@irwin.org](mailto:david@irwin.org)

**Jonathan M. Scott**, Teesside University Business School

Teesside University Business School, Teesside University,

Southfield Road, Middlesbrough, UK, TS1 3BA

t: +44 (0)7872 188918, [j.scott@tees.ac.uk](mailto:j.scott@tees.ac.uk)

**Purpose** – This paper uses univariate statistical analysis to investigate barriers to raising bank finance faced by UK small and medium-sized enterprises (SMEs), specifically the impact of personal characteristics (ethnicity, gender and education).

**Design/methodology/approach** – We developed a conceptual model and analysed the results of a telephone survey of 400 SMEs conducted (before the ‘credit crunch’) by the Barclays Bank small business research team on our behalf. The survey was based on a large stratified random sample drawn from the Bank’s entire SME population.

**Findings** – We found that education made little difference to sources of finance, except that those educated to A-level more frequently used friends and family and remortgaged their homes. However, graduates had the least difficulties raising finance. Though statistically insignificant, women respondents found it easier to raise finance than men. The survey confirmed that – and this finding was statistically significant – ethnic minority businesses, particularly black owner-managers, had the greatest problem raising finance and hence relied upon ‘bootstrapping’ as a financing strategy.

**Research limitations/implications** – The study makes an important contribution to filling a research gap, given the critical need of policy-makers to understand differentials between different types of owner-managers. It brings new insights into its field – access to finance – and with respect, especially, to marginalised groups.

**Originality/value** – The paper adopts a different approach than many prior studies, with a large sample and robust analysis, to explore a critical need-to-know area in a new way – both for policy-makers and academics in the field of SME finance.

**Keywords** Finance, SMEs, Banks, Gender, Ethnicity, Education

**Paper type** Research paper

## **Introduction**

Prior to the ‘credit crunch’, it was often assumed by commentators that substantial private investment was available for new ventures (e.g. *Daily Telegraph*, 2006). However, whilst there may have been large amounts of money seeking a home at this time, such financiers were seeking opportunities with proprietary intellectual capital, exceptional management, a market that is not what equity investors quaintly call ‘pre-revenue’ and the chance of a high return. In our view, many groups of owner-managers, for a variety of reasons, still find it immensely difficult to raise the capital that they need. This paper explores one of the possible reasons – personal characteristics.

Accordingly, our aim is to investigate whether owner-managers’ personal characteristics (ethnicity, gender and education) introduce additional barriers that impact on their ability to access finance other than those that affect businesses because of their sector, size and other characteristics. The exploratory paper draws upon a ‘pre credit crunch’ survey of 400 small and medium-enterprises (SMEs), a large random stratified sample of Barclays’ SME clients, and the firm-level univariate analysis concentrated upon three key variables: sources of finance used, whether there were finance constraints and the personal characteristics of the owner-managers of these firms. We have developed a conceptual model and conducted exploratory data analysis in order to achieve our aim. Although the paper does not undertake multivariate analysis to separate characteristics, statistical testing is adopted to identify whether differences were significant. We are grateful to Barclays Bank’s small business research team, who undertook the survey on our behalf.

Banks remain the main supplier of external SME finance (Cosh and Hughes, 2003), though there may be various financing constraints (Kotey, 1999; Fraser, 2005). Access to finance is influenced by funding preferences (Hamilton and Fox, 2004), such as the pecking order theory (Howorth, 2001) or risk aversion of banks. This risk aversion can lead to a preference to fund less risky ventures or ‘better borrowers’ (Cressy and Toivanen, 2001), which may exclude women and ethnic minorities who may not appear so credible to lenders. There is certainly evidence that ethnic minorities face difficulties raising finance (Ram and Smallbone, 2001; Ram and Deakins, 1996; Bank of England, 1999), particularly African Caribbeans and Bangladeshis (Curran and Blackburn, 1993) and an inclination, especially amongst South Asians, towards obtaining informal finance (Basu, 1998). Other authors have found differences between men and women (Carter and Rosa, 1998) with evidence of discrimination (Ennew and McKechnie, 1998). In the case of women and ethnic minorities, the belief that there is discrimination may lead potential borrowers not to seek loans because they are discouraged (Kon and Storey, 2003) or simply fail to ‘ask’ for finance (Marlow and Carter, 2006). Indeed, the UK Government’s Policy Action Team 14 articulated the difficulties faced by some businesses in accessing bank finance – due primarily to their age, experience, track record or business structure – though they did not blame it all on personal characteristics (Her Majesty’s Treasury, 1999).

The remainder of the paper is structured as follows. In the next section, we discuss the theoretical background and present a conceptual model. In Section Three, we outline our research approach. Section Four comprises the results and discussion, and Section Five offers conclusions and recommendations.

## **Theoretical Background and Conceptual Model**

Experts have argued two main hypotheses in relation to the influence of personal characteristics (particularly gender and ethnicity) upon access to finance. First, that there is sufficient and readily accessible finance (but the propositions are perceived as not viable, or the applicants are perceived as incapable of achieving the objectives, or there is insufficient collateral, and so the whole proposition is too risky for the banks). Second, that some people exhibit certain characteristics that make it more likely that they will fail to secure the funding that they need. Our thesis is that we accept that the first hypothesis is true, but believe that the second hypothesis may also be having an effect. In this section, we develop a conceptual model to achieve our aim.

Loans from banks are the predominant source of UK SME finance (Cosh and Hughes, 2003; Fraser, 2005) and, while financing constraints can lead to business failure, many owner-managers do not wish to use long-term debt finance (Kotey, 1999). It is generally assumed that business owners adopt a ‘pecking order’ of financing preferences where they use personal finance and funding from family and friends, then banks, before approaching equity sources (Howorth, 2001). The seminal literature on entrepreneurial start up suggests that liquidity constraints can hinder or even prevent someone from creating a new venture (Evans and Jovanovic, 1989; Holtz-Eakin et al, 1994; Blanchflower and Oswald, 1998). It can also impede the growth of a small firm.

We already know much about banks’ risk assessment procedures (Deakins and Hussain, 1991), how financing and investment decisions are actually made (Keasey and Watson, 1992), and how credit rationing operates (Stiglitz and Weiss, 1981; Berger and Udell, 1992; Cressy, 1996). In particular, studies have focused upon imperfect

information within credit markets and the impact of asymmetric information upon small business borrowing (Binks et al, 1992; Deakins and Hussain, 1993), which might lead to impediments to firm performance and growth (Keasey and Watson, 1992). Much established literature fails to investigate the influence of personal characteristics upon access to finance, but we review briefly some evidence. As well as operating firms in an intensely competitive milieu (Ram et al, 2000), ethnic minorities may experience problems with access to finance, especially during start-up (Ram and Deakins, 1996; Bank of England, 1999; Ram and Smallbone, 2001; Ram et al, 2003), and particularly African Caribbeans and Bangladeshis, although there may be a strong influence of the business sector in which particular ethnic groups concentrate (Curran and Blackburn, 1993). Ethnic minority owner-managers also favour personal savings and co-ethnic informal sources of finance (Basu, 1998). Smallbone et al (2001) suggested that:

‘as a group, EMBs are not disadvantaged in terms of start-up capital from banks and other formal sources ... However, more detailed analysis shows that whilst Chinese owned businesses demonstrated a significantly higher propensity to access start-up finance than white owned firms, the proportion of ACBs [African Caribbean businesses] to do so was below that of the white control group and significantly below with respect to bank finance solely’.

Carter and Rosa (1998) found: ‘quantifiable gender differences in certain areas of business financing, although intra-sectoral similarities demonstrate that gender is only one of a number of variables that affect the financing process’. Ennew and McKechnie (1998) found discrimination to be ‘unconscious’, while women may pay higher interest rates on term loans than men (Coleman, 2000; Fraser, 2005). Human capital theory explains why women owners who are highly educated or who have more business

experience have a greater likelihood of obtaining financial capital (Smith-Hunter, 2006). Social capital theory, on the other hand, suggests that a lack of access to social networks can constrain women's access to finance (Carter and Shaw, 2006). Whilst Brindley (2005) has highlighted risk as a barrier to women entrepreneurs, cognitive biases, where the true level of risk is not perceived rather than "knowingly accept[ing] high levels of risks" (Simon et al, 2000), imply gender differences in the perception of risk.

The studies discussed above highlight that the role of gender and ethnicity, in particular, (although inevitably intertwined with education and, therefore, social class (Basu, 2004)) in access to bank finance is highly complex and contested. Not only are there gendered, racialised, and class-based processes but there are also influences emerging from social capital (e.g. Bagwell, 2008) and risk perceptions by both borrowers and lenders. Kon and Storey (2003), for example, found cases of potential borrowers from banks who may offer perfectly reasonable business proposals but who 'do not apply for a bank loan because they feel they will be rejected.' Marlow and Carter (2006) provided further evidence that many women, fearing refusal, do not 'ask' for finance. More recently, Marlow et al (2008) have drawn the conclusion that many women are rational in not seeking excessive amounts of finance to support a high-risk new venture.

In our view, the general SME and finance literatures do not address adequately, if at all, the role of personal characteristics in access to bank finance. In addition, while a number of specific studies do explore either gender or ethnic differentials (and rarely both – except for Smith-Hunter, 2006) in access to finance, we would highlight their limited nature. Many such studies adopt a more qualitative and exploratory methodology, while some utilise a quantitative approach but have relatively small sample sizes. Most



critically, we would argue that there has not to date been any compelling evidence that personal characteristics influence financial constraints. Therefore, to achieve our aim, we focus upon human capital (education), ethnicity, and gender in order, first, to examine differences in the sources of finance used and, second, whether these personal characteristics influence credit constraints for such SMEs. Figure 1 represents our conceptual model – which assumes that applicants possess viable business propositions – and we investigate two related research questions:

***Research Question (RQ) 1:** Do gender, ethnicity and education influence whether owner-managers use specific sources of start-up finance?*

***Research Question 2:** Do gender, ethnicity and education, in turn, play a direct role in whether owner-managers experience financial constraints?*

**[Insert Figure 1 about here]**

## **Research Approach**

The literature presents conflicting evidence about whether personal characteristics are an issue when owner-managers seek bank finance – though it does seem that there is a perception amongst specific groups of entrepreneurs that they experience difficulty raising finance due to specified characteristics. It seems that there are several factors at work which, together, make it more likely that certain groups are less able to articulate their propositions effectively or are less likely to be able to implement their business proposal effectively and are, therefore, regarded as too risky by the banks. Hence we recognise that some personal characteristics are indicative of higher risk (young people, for example, with no track record, no savings and no collateral) but believe that there is no discrimination based solely on personal characteristics.

We prepared a number of research questions, which were codified and incorporated into a telephone survey – drawn from a large stratified random sample of the Bank’s entire SME population – which intended to differentiate [by gender, ethnic group and education] sources of finance, constraints raising finance, and the impact on businesses of financial constraints. Drawing from the above theoretical background, we identified two key research questions for the purpose of applying the conceptual model within the analysis of the survey results. The sample population was extracted from a database of Barclays Bank customers in Great Britain (England, Scotland and Wales) who had a business account, but not necessarily a loan. The interviewers then sourced 400 participants (the target number of completed interviews) from this larger list based on willingness to take part. The only exclusions were clubs, charities and societies. The only limitation was that the firms were still active in the month before the date of the interview.

The interviews were undertaken by the Barclays Telephone Research Unit, in September 2005, using standard Computer Aided Telephone Interview (CATI) techniques and operated on Market Research Society Guidelines. The results are collected wholly independently of Barclays Bank. Out of the original sample of 7,820 SMEs, a total of 1,360 were dialled. The interviewers spoke to 570 (with 790 wrong numbers, unanswered calls etc<sup>1</sup>). Of the 570 to whom the interviewers spoke, 150 (26%) refused, 20 (4%) were ineligible (for example, the owner-manager was not available; or the firm was no longer active), and 400 (70%) were interviewed successfully. There was no difference in refusal rates between men and women.

---

<sup>1</sup> These indicative figures were provided by Barclays and were rounded to the nearest ten.

The Barclays research team conducts a quarterly survey of SMEs which is rigorously sampled and administered. However, the telephone survey is best understood – and perhaps even criticised – in that it is based upon a sample of small firms that are customers of Barclays Bank, i.e. they have a business account which does not equate to having accessed finance (term loans etc) from the bank. Businesses are likely to have some formal banking relationship, so it can be argued that the sample is not skewed so as to be unrepresentative. Furthermore, the Barclays research team adopted standard sampling techniques to ensure that the sample was representative of the population as a whole. The research team's objective was to achieve a representative sample of 400 completed interviews.

We were provided with an anonymised SPSS data set (hence resolving any ethical issues of confidentiality or disclosure), which contained the responses from all 400 surveyed firms. We analysed the data using descriptive statistics and cross-tabulations, in order to address the research questions and to apply the conceptual model. The sample was large and varied enough to provide solid evidence of differences between the SMEs' sources of finance, finance constraints, and personal characteristics. In this paper we have separated owner-managers' personal characteristics – specifically education, gender, and ethnicity – in our analyses and distinguished these firms from SMEs as a larger, aggregate group, which is a deficiency of much previous literature, which tends to treat firms as a homogenous group (as well as prior studies adopting a mainly qualitative, exploratory approach). However, we also need to consider that there are other explanatory factors at play which need to be uncovered in future research.

## Results and Discussion

Some 74 per cent of respondents were men and 26 per cent were women. Some 62 per cent were white with 7 per cent Asian or Asian British, 3 per cent Black or Black British, and 22 per cent ‘other’ (including, for example, Chinese), while around 7 per cent did not divulge their ethnicity (which is often an issue of sensitivity in such surveys). Some 38 per cent were already trading when they opened their account with Barclays, whilst 62 per cent were still preparing (i.e. they were in pre-start mode). Of the firms who were currently trading when they opened their account, those trading for fewer than 6 months were the predominant group (as might be expected from the method of identifying the sample population). Around 20 per cent had been trading between 6 months and 2 years, 9 per cent 2-5 years and the remaining firms for over 5 years. The cost of start up for the largest group of these firms was over £20,000, but generally start-up costs were lower than £5,000.

**[Insert Table 1 about here]**

### *Sources of finance*

We explored RQ 1 – ‘*Do gender, ethnicity and education influence whether owner-managers use specific sources of start-up finance?*’ – by analysing sources of finance to start up a business (Table 1). We do not discuss here differences between entrepreneurs that were in preparation or had already started the business when the bank account was opened. As per the ‘pecking order’ (Howorth, 2001), respondents used loans, credit cards, hire purchase and leasing. There were no venture capital or business angel backed businesses amongst our surveyed SMEs. If remortgaging were added to bank loans, then bank finance was in second place on about 15 per cent.

Own personal savings (70% of all firms and also 70% of white respondents) was the main source of finance for owner-managers but was slightly higher for Asians (74%). Women, at 72 per cent, also had a moderately higher uptake of this source of finance than men. All in all, these variations accounted for less than 5 per cent in each case and were not significantly different. Redundancy money (5% average) was more frequently used as a source of finance by men (6%) than by women (3%), perhaps because of the nature of men's work and higher rates of redundancy in male-oriented occupations. None of the Asian respondents used this source, although 10 per cent of black owner-managers did – whilst educational level made little difference to the use of redundancy money.

Moreover, 10% of men and 5% of women remortgaged their home in order to finance the start up of their business, perhaps reflecting men's ownership of such assets and their higher propensity to take risks. Black owners, at 20 per cent, were double the average (despite the common assumption that black people had much lower levels of home ownership). Additionally, while there were few gender differences in family and friends (12%), it was used by 37 per cent of Asians, reflecting prior research that found that Asians preferred informal sources of finance, such as families and friends (Basu, 1998). Only 4 per cent of graduates and 3 per cent of professional/trade qualified owner-managers sought finance from family and friends, compared to 21 per cent of those educated to A-level and 14 per cent educated to GCSE/O-level.

Bank loans (7% business bank loans, 8% personal bank loans and 13% overall) showed men and women level using a similar level of business bank loans, but 7 per cent of men and 4 per cent of women used personal bank loans. Asian and black owner-managers, at 11 per cent and 10 per cent respectively used business bank loans more

frequently; however, only 7 per cent of Asians but 20 per cent of black owners used personal bank loans. Education level did not vary much, except for 4 per cent of graduates using business bank loans compared to 10 per cent of those with professional or trade qualifications. Notably, despite minimal differences (by most characteristics) in the use of business credit cards, 20 per cent of black owner-managers relied upon personal credit cards: evidence of bootstrapping (Harrison et al, 2004; Brush et al, 2006).

### *Financing constraints*

We explored RQ 2 – ‘*Do gender, ethnicity and education, in turn, play a direct role in whether or not owner-managers experience financial constraints?*’ – by analysing all SMEs; and those that were ‘pre-start’ when they opened their account, or had already started their business. Fraser (2005) found that 10 per cent of businesses faced financial constraints, but we found that some 16 per cent of respondents experienced difficulties raising finance to start their business. As identified by Table 2, men who had successfully raised finance more frequently reported difficulties (18%) than women (12%). A chi-square test on gender indicates that this finding is not statistically significant at the 5 per cent level. The result is consistent, however, with practitioners’ views that women who have succeeded in starting in business are less likely to have had problems raising finance and suggests that there is a need for research which focuses on following prospective borrowers through the process of accessing finance.

The survey suggested that ethnic minorities did face greater difficulties raising finance (Table 3). Just 13 per cent of white respondents reported finance constraints compared to 22 per cent of Asians, 50 per cent of blacks, and 21 per cent within the other

ethnicity group (including Chinese etc); this finding appeared tentatively to confirm prior studies (e.g. Curran and Blackburn, 1993; Ram and Deakins, 1996; Bank of England, 1999; Ram and Smallbone, 2001), although we need to be cautious and bear in mind the smaller sample sizes for these groups. A chi-square test on ethnicity suggests that the finding is significant at the 5 per cent level (10.8 with four degrees of freedom). The number of respondents categorised as 'black' was relatively small, and a large number of respondents described their ethnicity as 'other', so we also tested with just two categories: white and 'other'. This is significant at the 2.5 per cent level (5.7). Further research is clearly required in order to confirm this emergent research finding.

**[Insert Tables 2 & 3 about here]**

Only 8 per cent of graduates in the survey experienced difficulties raising finance, compared to 19 per cent of those educated to General Certificate of Secondary Education (GCSE)/O-level (an examination taken at 16), 21 per cent of those with professional, trade or vocational qualifications and a surprisingly high 23 per cent of owner-managers educated to Advanced (A)-level (an examination normally taken at 18). Not having a degree appeared to correlate with a greater frequency of financial constraints at start up.

Clearly, difficulties intensified for the firms that were already trading when they opened their bank account, perhaps suggesting that the reason for moving bank was to improve access to loan finance. Although men more frequently reported financing constraints in the former category, women experienced financing constraints to the same extent as men if they opened their bank account when their business had already started. Similarly, the finance constraints intensified for Asian and black people in the 'already started' category (up from 18% to 30% and 33% to 75% respectively) and similarly for

‘other’ ethnicities (12% to 38%). We found that graduates had the lowest financing constraints at 2% for those starting their bank account as part of their preparations but this figure rose to 19% if they had already started their business when they opened their account. A chi square test on education indicates that our finding is not significant at the 5 per cent level (6.9 with four degrees of freedom). Practitioners would suggest that graduates have the least difficulty in raising finance.

It was possible that the level of education was a major factor in coming to a lending decision, either because bankers valued a higher education or because a higher education means that owner-managers were more articulate and more likely, therefore, to persuade the banks that they had a viable proposition. In our sample population, white, Asian and black owner-managers had roughly the same proportions at degree level, though it is noticeable that amongst those whose highest level of education was A level, black owner-managers had the lowest proportion. And, at least at higher levels of education, there was little difference between men and women. This suggests that even having a university degree did not offset the disadvantage of being from an ethnic minority when accessing loan finance. This, and the interactions between gender, ethnicity and education, is an important avenue for future research.



### *Impact of difficulties raising finance*

Some 65 respondents (16%) had experienced difficulties raising finance (the question that was asked in the survey was: ‘Did you experience any difficulties raising the finance needed to start in business?’). We then asked respondents to describe the impact on their business arising from the difficulties that they experienced. Respondents were able to indicate any number of these impacts and not just one main impact. These impacts included having ‘less funds than anticipated at start up’ (55% of the 65), the need to scale back plans (38%) and having to seek alternative sources of finance.

It seemed that male owner-managers were more prepared to take risks, with more than twice the proportion of women starting up with less money than anticipated, and very few women going back to seek additional finance soon after starting up.

Ethnic minority owner-managers facing difficulties raising the necessary finance appeared to do everything they could to mitigate the impact, including delaying their start-up, scaling back their plans and starting with less money than anticipated. Level of education did not appear to make any difference to the impact on the business, though it should be noted that graduates less frequently started with less than anticipated or sought additional finance early on.

## **Conclusions and Recommendations**

If one was being flippant, one would say that the research tells us that uneducated, black men had the greatest difficulties raising finance. The research appeared to suggest that personal characteristics did make some difference to the ability of entrepreneurs to raise finance. Not surprisingly, graduates had the least difficulties raising finance. Education appeared to make little difference to sources of finance, except that those educated (only) to A levels more frequently used friends and family and remortgaged their home.

Perhaps surprisingly, given prior studies (for example, Carter and Rosa, 1998; Ennew and McKechnie, 1998; Carter and Shaw, 2006), women found it easier to raise finance than men, though this conclusion would not be surprising to any developing country micro-finance institution, many of which only lend to women because of their better track record in repaying their loans, or to many practitioners. We do recognise that the sample is skewed in the sense that it only captured people who had successfully started in business. We would caution, though, that other literature (Marlow and Carter, 2006; Roper and Scott, 2009) points towards women as ‘discouraged borrowers’ (cf Kon and Storey, 2003) in the sense that some women, who believe that they will be refused loan finance (and hence do not borrow, i.e. are discouraged), will not report financial constraints. However, the chi-square testing revealed that these gender differences were statistically insignificant, whereas there is apparently a statistical significance in the ethnicity differences.

---

Gender appeared to make little difference to the choice of finance source utilised – most settled for personal savings, but there was little difference across each source. The research appeared to confirm the findings of earlier studies (Curran and Blackburn, 1993; Ram and Deakins, 1996; Bank of England, 1999; Ram and Smallbone, 2001) that ethnic minority businesses, particularly black owner-managers, faced the greatest financial constraints. Ethnicity also made a difference to sources of finance with Asians more frequently tapping family sources. Black people far more frequently remortgaged their home, using personal bank loans and personal credit cards. This finding perhaps suggested a willingness to accept a high level of personal risk or else frustration with their ability to raise commercial finance, coupled with a determination to start up. While we know that women and certain sectors may use bootstrapping (Harrison et al, 2004; Brush et al, 2006), we found it to be a key financing strategy also for black entrepreneurs.

---

Since this study covered individuals who have successfully started and now have a business banking relationship, it does not capture the problems faced by people who were unable to raise the finance needed and never actually started up. Of those experiencing difficulties, most suffered some impact – in many cases, people started with less than anticipated (and presumably less than they really needed). This could be dangerous for many businesses, potentially setting them off on the wrong foot, and explaining why so many then needed additional finance in the first few months. Some have argued that business bank lending does appear to be more fairly addressing issues of access to finance – and that the problems of access to finance should not be laid at the door of the bank branch. In other words, there are other external factors that may lead to financing constraints at start up. As one expert observed in correspondence with the authors:

‘the research just confirms that society is unequal. Many of the demographic and socio-economic variations you note will map back to different risk-reward implications for different types of suppliers of financial services. If the differences do have risk implications, surely the finance providers are acting rationally to deny applications if the reward ratio is too little for them? Even something like the Small Firms Loan Guarantee Scheme (SFLGS) does not provide an answer as this is only to replace lack of security/track record - we still have to wish to lend to them in any circumstance and the 25-30 per cent uncovered by SFLGS still is an obstacle! Also, I do not see it as a job for the private commercial sector to solve inequality (beyond paying its taxes to fund government and as a good corporate citizen).’

This exploratory research did not look at the ‘investment readiness’ of propositions. While there is evidence of an association between the use of external advice and the ability to raise bank finance (Scott and Irwin, 2009), it would be interesting now to work with the bank on a review of business plans being submitted to explore whether different groups are better or worse at making the case for bank support. In addition, we should look at plans submitted by prospective business owners who have had support from a business support organisation to see what difference they make. This approach would be facilitated by using verbal protocol analysis (Ericcson and Simon, 1993), a methodology in which, “respondents ... describe their thoughts as they perform a task” (Carter *et al*, 2007: 431), and which has been used in a number of prior studies to analyse banks’ investment decision-making process (e.g. Mason and Stark, 2004; Carter *et al*, 2007; Wilson *et al*, 2007; Deakins *et al*, 2008). While various authors have investigated

issues relating to entrepreneurs – including ethnic minorities – in disadvantaged areas (e.g. Rouse and Jayawarna, 2006) and those who are ethnic minority women (Kwong et al, 2009; Davidson et al, 2010), future research should examine, more specifically and in a more critical and comprehensive manner, access to finance for ethnic minority women business owners.

It is difficult, too, to make recommendations for policy makers based on one piece of exploratory research that was conducted prior to the onset of the ‘credit crunch’ and the recession in the UK. However, we are concerned that the majority of businesses were starting up with (only) personal savings and believe that many people with sound business ideas are giving up simply because of the difficulties of raising the finance. We are conscious that the level of resource available through micro-finance institutions (MFIs) is very small compared to bank lending to SMEs and we would recommend that more support is made available through MFIs, such as Community Development Finance Institutions (CDFIs), and other non-bank lending routes to support people with a proposition that looks viable but who lack sufficient resources to start up and cannot attract bank finance.

## References

Bank of England (1999), *The Financing of Ethnic Minority Firms*, Bank of England, London.

Bagwell, S. (2008), "Transnational family networks and ethnic minority business development", *International Journal of Entrepreneurial Behaviour and Research*, Vol.14, No. 6, pp. 377-394.

Basu, A. (2004), "Entrepreneurial aspirations among family business owners: An analysis of ethnic business owners in the UK", *International Journal of Entrepreneurial Behaviour and Research*, Vol.10, No. 1/2, pp. 12-33.

Basu, A. (1998), "The role of institutional support in Asian entrepreneurial expansion in Britain", *Journal of Small Business and Enterprise Development*, Vol. 5, No. 4, pp. 317-326.

Berger, A.N. and Udell, G.F. (1992), "Some evidence on the empirical significance of credit rationing", *Journal of Political Economy*, Vol. 100, No. 5, pp. 1047-1077.

Binks, M.R., Ennew, C. and Tand Reed, G.V. (1992), "Information asymmetries and the provision of finance to small firms", *International Journal of Small Business*, Vol. 11, No. 1, pp. 35-46.

Blanchflower, D. and Oswald, A.J. (1998), "What makes an entrepreneur?", *Journal of Labour Economics*, Vol. 16, No. 1, pp. 26-60.

Brindley, C. (2005), "Barriers to women achieving their entrepreneurial potential: Women and risk", *International Journal of Entrepreneurial Behaviour and Research*, Vol.11, No. 2, pp. 144-161.

Brush, C.G., Carter, N.M., Gatewood, E.J., Greene, P.G. and Hart, M.M. (2006),

“The use of bootstrapping by women entrepreneurs in positioning for growth”, *Venture Capital - An international journal of entrepreneurial finance*, Vol. 8, No. 1, pp. 15-31.

Carter, S. and Rosa, P. (1998), “The financing of male- and female-owned businesses”, *Entrepreneurship & Regional Development*, Vol. 10, No. 3, pp. 225-241.

Carter, S. and Shaw, E. (2006), *Women’s Business Ownership: Recent Research and Policy Developments*, Small Business Service, London.

Carter, S., Shaw, E., Lam, W. and Wilson, F. (2007), “Gender, entrepreneurship and bank lending: The criteria and processes used by bank loan officers in assessing applications”, *Entrepreneurship Theory and Practice*, May, pp. 427-444.

Coleman, S. (2000), “Access to capital and terms of credit: a comparison of men- and women-owned small businesses”, *Journal of Small Business Management*, Vol. 38, No.3, pp. 37-52.

Cosh, A. and Hughes, A. (Eds) (2003), *Enterprise Challenged: Policy and Performance in the British SME Sector 1999-2002*, ESRC Centre for Business Research, Cambridge.

Cressy, R. (1996), “Are business start-ups debt rationed?”, *Economic Journal*, Vol. 106, pp. 1253-1270.

Cressy, R. and Toivanen, O. (2001), “Is there adverse selection in the credit market?”, *Venture Capital*, Vol. 3, No. 3, pp. 215-238.

Curran J. and Blackburn R. (1993), *Enterprise and the High Street Bank*, Small Business Research Centre, Kingston University, London *Daily Telegraph* (2006) ‘Don't mind the gap, it's a perception’, 1 August 2006.

Davidson, M.J., Fielden, S. and Omar, A. (2010) “BAME female business owners:

Discrimination and social support”, *International Journal of Entrepreneurial Behaviour and Research*, Vol.16, No. 1, forthcoming.

Deakins, D. and Hussain, J.G. (1991), “Risk assessment by bank managers”, working paper, University of Central England, Birmingham.

Deakins, D. and Hussain, J.G. (1993), “Risk assessment with asymmetric information: a case study of lending decisions by bank officers”, *UKMER Journal*, Vol. 3, No. 2, pp. 11-23.

Deakins, D., North, D., Baldock, R. and Whittam, G. (2008), “SMEs' Access to Finance: Is there still a debt gap?”, paper presented to the Institute for Small Business & Entrepreneurship conference, November, Belfast.

Ennew, C. and McKechnie, S. (1998), “The nature of the banking relationship: a comparison of the experiences of male and female small business owners”, *International Small Business Journal*, Vol. 16, No. 3, pp. 39-55.

Ericsson, K.A. and Simon, H.A. (1993), *Protocol Analysis: Verbal Reports as Data*, MIT Press, Cambridge, MA.

Evans, D.S. and Jovanovic, B. (1989), “An estimated model of entrepreneurial choice under liquidity constraints”, *Journal of Political Economy*, Vol. 97, No. 4, pp. 808-827.

Fraser, S. (2005), *Finance for Small and Medium Sized Enterprises: A Report on the 2004 UK Survey of SME Finances*, Warwick Business School, Coventry.

Hamilton, R. T. and Fox, M. A. (1998) ‘The Financing Preferences of Small Firm Owners’, *International Journal of Entrepreneurial Behaviour and Research*, Vol. 4, No. 3, pp. 239–48.



Harrison, R.T., Mason, C.M. and Girling, P. (2004), “Financial bootstrapping and venture development in the software industry”, *Entrepreneurship and Regional Development*, Vol. 16, pp. 307-333.

Her Majesty’s Treasury (1999), *Access to Financial Services*, Policy Action Team 14, HM Treasury, London.

Holtz-Eakin, D., Joulfaian, D. & Rosen, H. S. (1994), “Entrepreneurial decisions and liquidity constraints”, *Rand Journal of Economics*, Vol. 25, pp. 334–347.

Howorth, C.A. (2001), “Small firms’ demand for finance”, *International Small Business Journal*, Vol. 19, No. 4, pp. 78-86.

Keasey, K. and Watson, R. (1992), *Investment and Financing Decisions and the Performance of Small Firms*, National Westminster Bank, London.

Kon, Y. and Storey, D.J. (2003), “A theory of discouraged borrowers”, *Small Business Economics*, Vol. 21, No. 1, p. 37-49.

Kotey, B. (1999), “Debt financing and factors internal to the business”, *International Small Business Journal*, Vol. 17, No. 3, pp. 11-29.

Kwong, C. C. Y., Thompson, P., Jones-Evans, D. and Brooksbank, D. (2009), “Nascent entrepreneurial activity within female ethnic minority groups”, *International Journal of Entrepreneurial Behaviour and Research*, Vol.15, No. 3, pp. 262-281.

Marlow, S. and Carter, S. (2006), “If you don’t ask you don’t get! women, self-employment and finance”, paper presented to Warwick Business School Small Firms Finance Conference, May, Coventry.

Marlow, S., Shaw, E. and Carter, S. (2008), “Risk, rationality and gender: A critical

analysis of the demand for finance by women business owners”, paper presented at the British Academy of Management conference, Harrogate, September.

Mason, C. and Stark, M. (2004), “What do investors look for in a business plan? A comparison of the investment criteria of bankers venture capitalists and business angels”, *International Small Business Journal*, Vol. 22, No. 3, pp. 227 – 248.

Ram, M., Abbas, T., Sanghera, B. and Hillin, G. (2000), “Currying favour with the locals: Balti owners and business enclaves”, *International Journal of Entrepreneurial Behaviour and Research*, Vol. 6 No. 1, pp. 1355-2554.

Ram, M. and Deakins, D. (1996), *African-Caribbean Entrepreneurship in Britain*, University of Central England, Birmingham.

Ram, M. and Smallbone, D. (2001), *Ethnic Minority Enterprise: Policy in Practice*, Small Business Service, Sheffield.

Ram, M., Smallbone, D., Deakins, D. and Jones, T. (2003), “Banking on ‘break-out’: finance and the development of ethnic minority businesses”, *Journal of Ethnic and Migration Studies*, Vol. 29, No. 4, pp. 663-681.

Roper, S. and Scott, J.M. (2009), “Perceived financial barriers and the start-up decision: An econometric analysis of gender differences using GEM data”, *International Small Business Journal*, Vol. 27, No. 2, pp. 149-171.

Rouse, J., and Jayawarna, D. (2006), “The financing of disadvantaged entrepreneurs: Are enterprise programmes overcoming the finance gap?”, *International Journal of Entrepreneurial Behaviour and Research*, Vol. 12, No. 16, pp. 388-400.

Scott, J.M. and Irwin, D. (2009), “Discouraged advisees? The influence of gender, ethnicity, and education in the use of advice and finance by UK SMEs”, *Environment and*

*Planning C: Government and Policy*, Vol. 27, No. 2, pp. 230-245.

Simon, M., Houghton, S.M. and Aquino, K. (2000), “Cognitive biases, risk perception and venture formation – Implications of interfirm (mis)perceptions for strategic decisions”, *Journal of Business Venturing*, Vol. 15, No. 2, pp. 113 – 34.

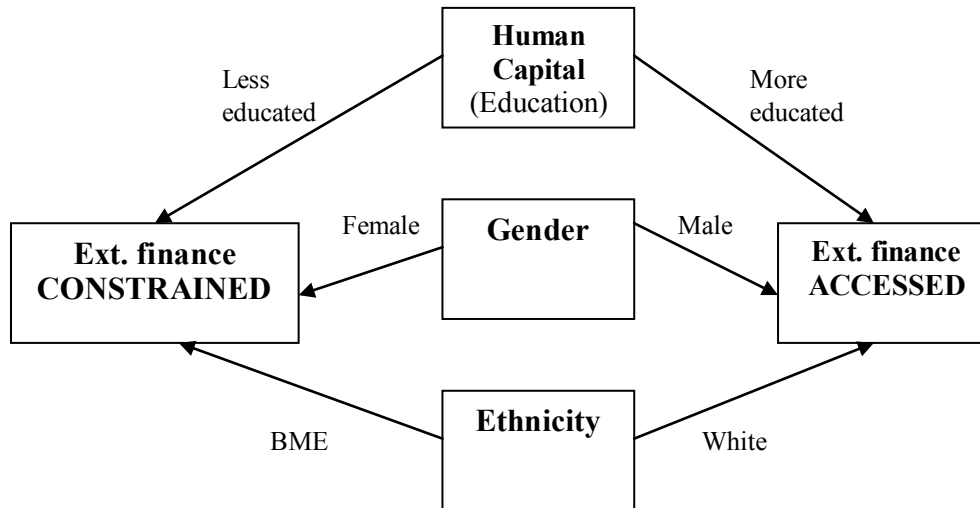
Smallbone, D., Ram, M., Deakins, D. and Baldock, R. (2001), “Accessing finance and business support by ethnic minority businesses in the UK”, paper presented at the Public Policy and Institutional Context of Immigrant Businesses, Liverpool, 22-25 March 2001.

Smith-Hunter, A.E. (2006), *Women Entrepreneurs Along Racial Lines: Issues of Human Capital, Financial Capital and Network Structures*, Edward Elgar, Cheltenham.

Stiglitz, J.E. and Weiss, A. (1981), “Credit rationing in markets with imperfect information”, *The American Economic Review*, Vol. 71, pp. 393–410.

Wilson, F., Carter, S., Tagg, S., Shaw, E., and Lam, W. (2007) “Bank loan officers' perceptions of business owners: The role of gender”, *British Journal of Management*, Vol. 18, No. 2, pp. 154-171.

**Figure 1.** How O-M characteristics influence the finance constraints of loan applicants who possess viable business propositions.



**Table 1** Sources of finance by gender, ethnicity and education (n=400)

	Personal savings	Redundancy	Remortgage	Family & friends	Business bank loan	Personal bank loan	Business credit card	Personal credit card	Leasing/hire purchase	MFIs etc	Gra
Male	69%	6%	10%	12%	7%	7%	3%	6%	5%	0%	
Female	72%	3%	5%	12%	8%	4%	1%	8%	3%	3%	
White	70%	6%	7%	8%	5%	5%	2%	7%	4%	1%	
Asian	74%	0%	7%	37%	11%	7%	4%	4%	4%	0%	
Black	70%	10%	20%	10%	10%	20%	0%	20%	0%	0%	
Other	71%	5%	9%	16%	12%	6%	3%	6%	6%	1%	
GCSE/O-I	70%	4%	6%	14%	8%	4%	3%	5%	2%	1%	
A-level	69%	8%	13%	21%	5%	7%	3%	7%	7%	0%	
Degree/ Higher	68%	6%	9%	4%	4%	6%	1%	8%	3%	0%	
Prof/Trade	66%	7%	10%	3%	10%	7%	0%	7%	10%	0%	

Source: Barclays Bank research

Note: Gender - A chi square test found that for all firms, at the .05 level, the distribution is statistically insignificant.

Ethnicity - chi square test found that for all firms the distribution is statistically significant.

**Table 2.** Proportion of firms facing financing constraints by gender, ethnicity & education

	n = All firms	had financing constraints (numbers)	had financing constraints (%)
Male	297	53	18%
Female	103	12	12%
Total	400	65	16%
White	248	32	13%
Mixed	1	0	0%
Asian	27	6	22%
Black	10	5	50%
Other	86	18	21%
N/R	28	4	14%
Total	400	65	16%
Not known	93	15	16%
GCSE/O-I	124	23	19%
A-level	61	14	23%
Degree/Higher	93	7	8%
Prof/Trade	29	6	21%
Total	400	65	16%

Source: Barclays Bank research

**Table 3.** Impact of finance constraints by gender, ethnicity and education (n=65)

	Started with less than anticipated	Amended business plan	Sought alternative sources	Delayed start date	Scaled back plans	Needed additional finance early on	Had no impact
Male	10%	5%	7%	5%	7%	6%	3%
Female	5%	3%	4%	4%	4%	2%	3%
White	6%	4%	4%	1%	6%	4%	2%
Asian	11%	7%	11%	7%	7%	11%	4%
Black	30%	20%	10%	40%	20%	10%	10%
Other	14%	6%	8%	8%	6%	6%	5%
GCSE/O-I	10%	3%	6%	4%	6%	10%	4%
A-level	10%	5%	7%	3%	11%	11%	7%
Degree/Higher	6%	3%	8%	4%	4%	4%	0%
Prof/Trade	10%	7%	7%	0%	7%	10%	3%

Source: Barclays Bank research

### **Annex 1: Sample of questionnaire**

- (Q1) Whether owner, a partner or director in the business Yes/No
- (Q2) State of business when opened business account with Barclays
- Business already trading
  - As part of preparations
- (Q3) Whether held previous business account with another bank or building society
- First Business Account
  - Held account with another Bank
- (Q4) How long business had been trading before opening business account with Barclays
- (Q5) Cost of getting business up and running
- (Q6) Sources used to fund starting business
- Own Personal Savings
  - Redundancy Money
  - Remortgage of home
  - Family and Friends
  - Business Bank loan
  - Personal Bank loan
  - Business Credit Cards
  - Personal Credit Cards
  - Leasing/hire purchase
  - Business angel
  - Venture capitalist
  - Special loan funds (e.g Prince's Trust)
  - Grants
  - Other Sources
- (Q7) Percentage of funds raised
- (Q8) Experience any difficulty in raising the finance needed to start business?
- (Q9) Impact of difficulty in obtaining finance
- Had to start business with less funds than anticipated
  - Had to change business plan/idea
  - Had to seek alternative sources of finance
  - Had to delay start-up date
  - Had to scale back plans
  - Had to arrange additional short-term finance for early months of trading
  - Had no impact on business start-up
- (ETH) Ethnic group
- (GENDER) Gender
- (EDU) Education level